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RHEBAAA/DEPT OF ENERGY WASHINGTON DC
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RUEHMO/AMEMBASSY MOSCOW 0057

C O N F I D E N T I A L SECTION 01 OF 02 TALLINN 000027

SENSITIVE

SIPDIS

AMEMBASSY ANKARA PASS TO AMCONSUL ADANA
AMEMBASSY ASTANA PASS TO AMCONSUL ALMATY
AMEMBASSY BERLIN PASS TO AMCONSUL DUSSELDORF
AMEMBASSY BERLIN PASS TO AMCONSUL LEIPZIG
AMEMBASSY BELGRADE PASS TO AMEMBASSY PODGORICA
AMEMBASSY HELSINKI PASS TO AMCONSUL ST PETERSBURG
AMEMBASSY ATHENS PASS TO AMCONSUL THESSALONIKI
AMEMBASSY MOSCOW PASS TO AMCONSUL VLADIVOSTOK
AMEMBASSY MOSCOW PASS TO AMCONSUL YEKATERINBURG

E.O. 12958: DECL: 2020/02/22

TAGS: [ECON](#) [EFIN](#) [PREL](#) [RS](#) [EN](#)

SUBJECT: ESTONIAN ECONOMY BOTTOMED OUT; RUSSIAN MARKET A HUGE
OPPORTUNITY, BUT THE KREMLIN BLOCKS THE WAY

CLASSIFIED BY: Marc Nordberg, Pol/Econ Chief, Department of State,
Political & Economic Section; REASON: 1.4(B), (D)

11. (C) SUMMARY: In a discussion with the Ambassador February 19, Juhan Parts, Minister of Economic Affairs and Communications, stated that "now that the economy has bottomed out," it was necessary to improve Estonia's competitiveness during the recovery. Parts conceded that Estonia's labor costs were rising, but stated the GOE hoped to continue benefiting from "near-shoring" by Nordic companies since Estonian wages will remain below the level of Nordic countries for at least the next decade. Parts said the GOE was not afraid of increasing economic ties with Russia, but was certain improved Estonia-Russia commerce would only occur if the Kremlin makes the political decision to allow it. Parts was very interested in increasing U.S.-Estonian economic and technological cooperation. In particular, he hoped the Oil Shale Research Agreement currently under negotiation between the Department of Energy and the Estonian Embassy in Washington would be concluded soon. END SUMMARY.

ESTONIA'S competitiveness

12. (C) Juhan Parts, Minister of Economic Affairs and Communications told the Ambassador February 19 that he hoped both that the economy had bottomed out, and that the crisis had given Estonia the opportunity to regain some of the competitiveness lost due to wage inflation during the boom. He predicted Estonian wages would remain below Nordic and Western European levels for at least a decade. Parts hoped medium-sized Nordic businesses would move production from Finland and Sweden to Estonia to take advantage of lower cost, highly educated, and geographically-proximate labor pool. (NOTE: We hear from the business community this is starting to happen. END NOTE.) Finally, Parts said accession to the euro zone (expected on January 1, 2011) would not significantly change business operations in Estonia since international transactions are conducted in euros already, but, regardless of current Greek and other concerns, eurozone collective strength would help attract additional investors.

13. (C) Parts agreed with the Ambassador that the proximity of the Russian market provides an excellent opportunity for Estonia, particularly for transit trade, despite ongoing political tensions between the two countries. Parts said there was keen interest in investing in Russia from Estonian businessmen and vice-versa.

14. (C) That said, Parts continued, nothing can be done to fix the relatively easy-to-fix infrastructure problems inhibiting cross-border trade (such as the border crossing bottleneck in Narva), until the Kremlin makes the political decision to improve relations with Estonia. Until politics improve, he said, trucks will continue to wait up to a week to cross the border into Russia and Russia will continue wasting money expanding its inefficient, ice-bound ports instead of fully utilizing Estonia's efficient, ice-free ports.

COMMENT

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15. (C) Parts' statements about the desire to increase trade and investment from both Estonian and Russian businessmen are healthy indications of GOE pragmatism when it comes to commercial ties with Russia. Parts is convinced, like others, that the ball is in the Kremlin's court on better economic ties with Estonia. Conversely, the Russian Ambassador told the American Chamber of Commerce on February 11 that economic relations will only improve once Estonia makes the political decision to improve ties with Moscow. This "the ball is in the other court" attitude all but cements the status quo.

16. (C) On the other side of the ledger, Parts, and all of Estonia, is enthusiastic about working with the U.S. and this Embassy to increase joint research, exchanges and two-way trade. He was concerned with the slow progress of the negotiations between the Estonian Embassy in Washington and the Department of Energy on the Agreement For Scientific And Technological Cooperation On Oil Shale Research And Utilization. We understand the Agreement is now near completion and look forward to using it to boost concrete economic cooperation projects.

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